

# *Osher Lifelong Learning Institute, Winter 2023*

## Contemporary Economic Policy

University of Massachusetts, Boston  
March-April, 2023

Host: Jon Haveman, Ph.D.  
National Economic Education Delegation



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## National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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## Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

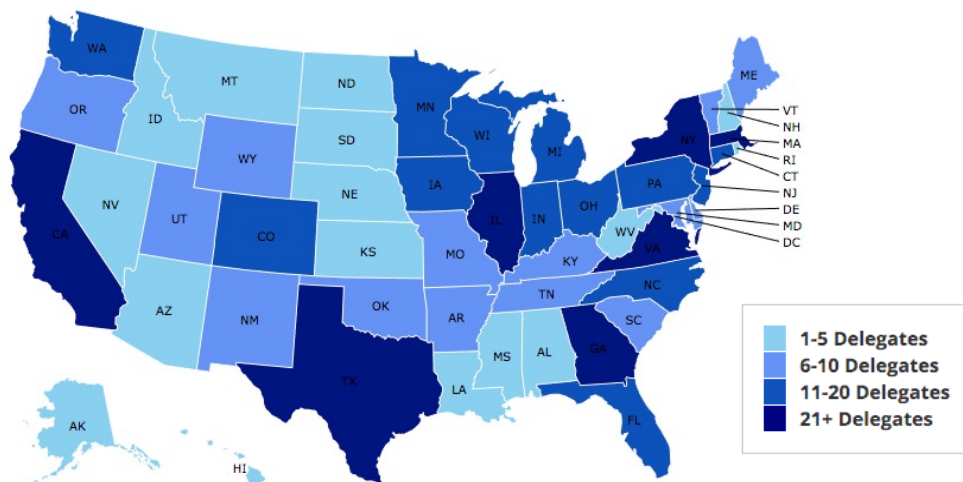
- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development



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## Where Are We?



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## Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics



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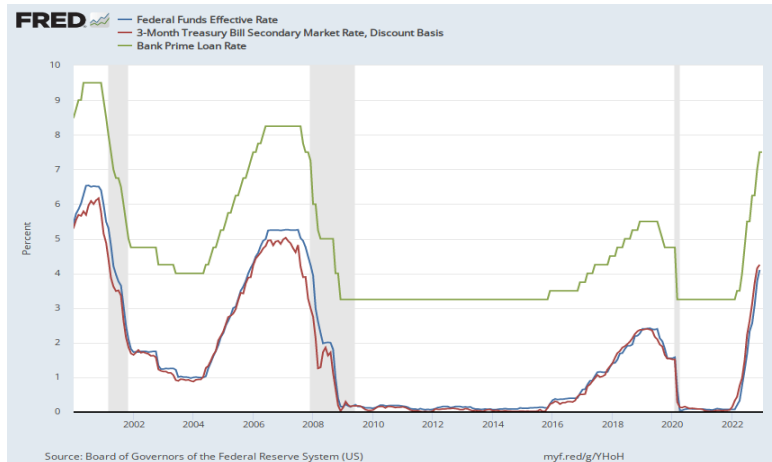
## Course Outline

- **Contemporary Economic Policy**
  - **Week 1 (3/13): US Economic Update (Geoffrey Woglom, Amherst College)**
  - Week 2 (3/20): Monetary Economics (Geoffrey Woglom)
  - Week 3 (3/27): Trade and Globalization (Alan Deardorff, Univ. Michigan)
  - Week 4 (4/3): Trade Deficits and Exchange Rates (Alan Deardorff)
  - Week 5 (4/10): Healthcare Economics (Jon Haveman, NEED)
  - Week 6 (4/17): Climate Change Economics (Sarah Jacobson, Williams College)



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# Monetary Policy

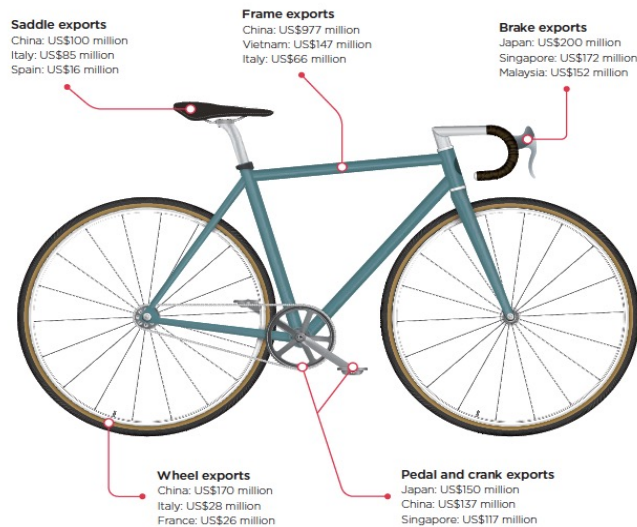


Blue is the fed funds rate.  
Red is the rate on 3 month Treasuries.  
Green is the prime bank lending rate

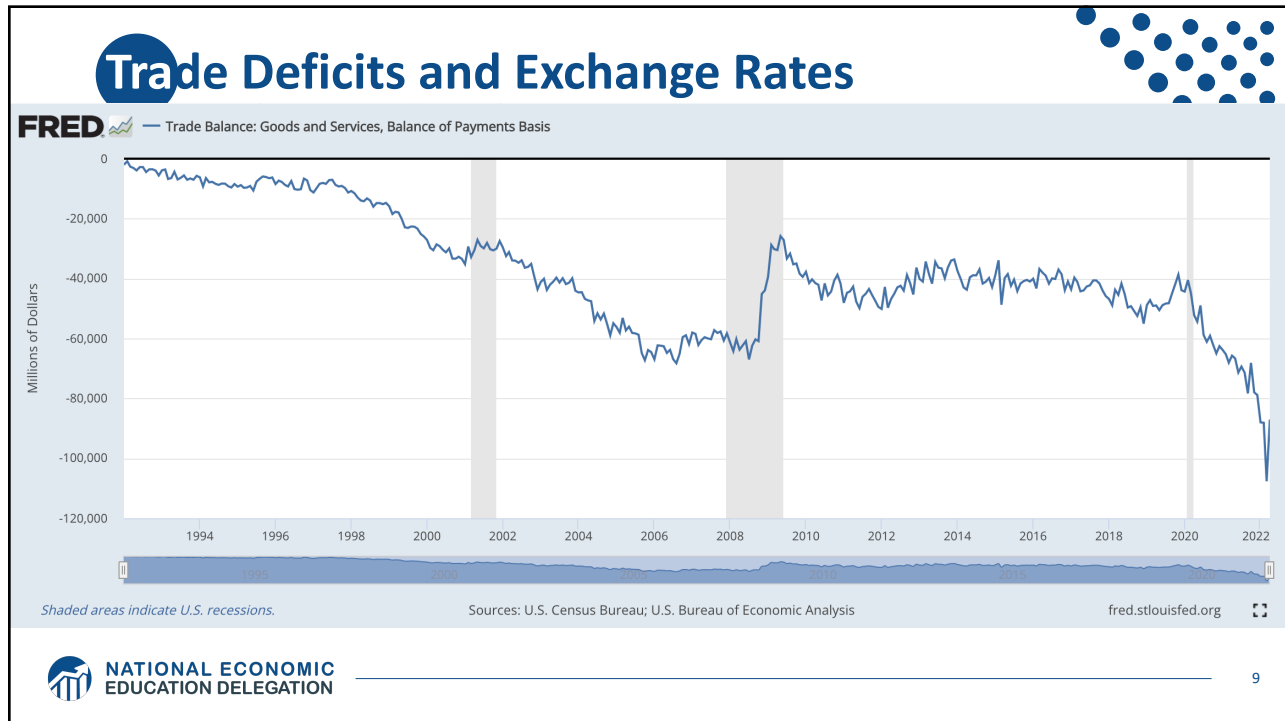
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# Trade: Bicycle Supply Chain

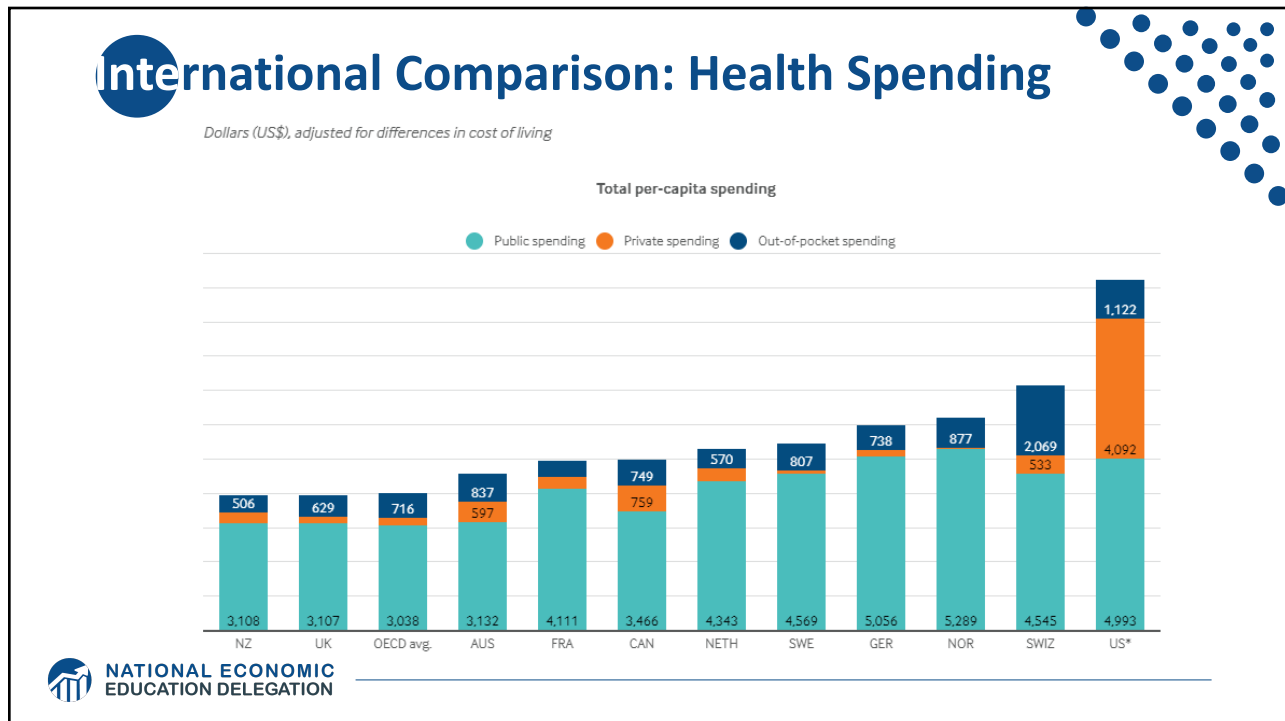
Figure 1.1 Where do bicycles come from?



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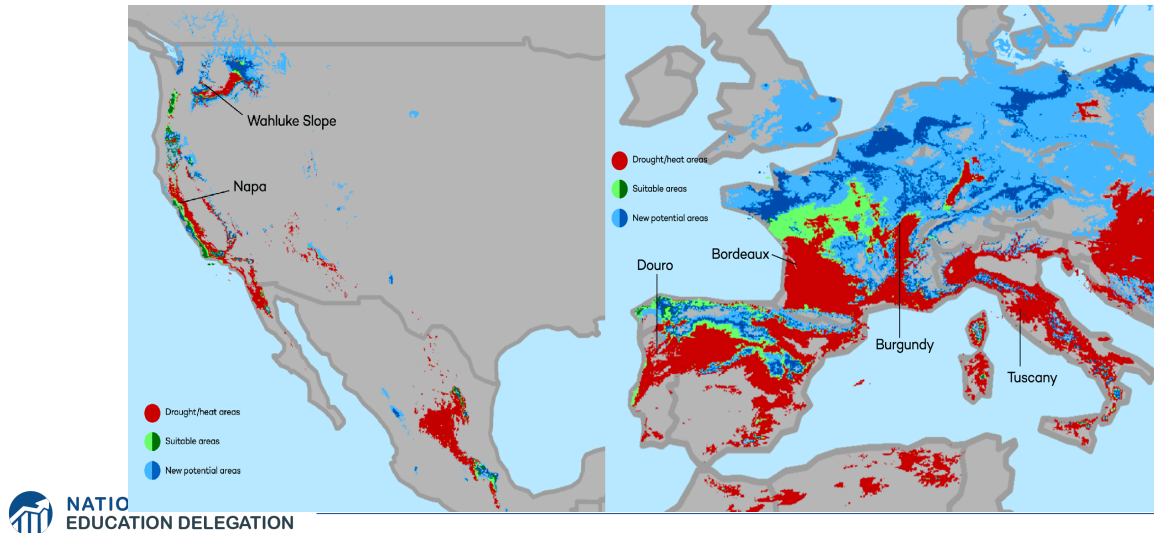
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## Climate Change Economics

The changing map of the world's wine-growing regions.



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## Submitting Questions

- Please submit questions by “raising” your digital hand or put them in the chat.
  - I will try to handle them as they come up.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website tomorrow ([https://needelegation.org/delivered\\_presentations.php](https://needelegation.org/delivered_presentations.php))

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## Credits and Disclaimer

- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombek, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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INFLATION



## US Economy: Update

**Geoffrey Woglom,**  
Professor of Economics  
Amherst College, emeritus  
March 13, 2023



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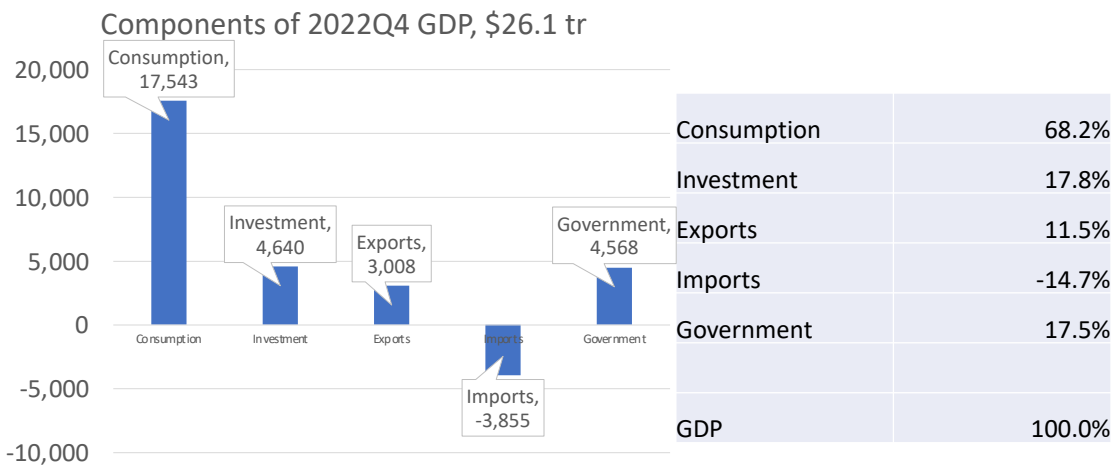
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## Outline for the Talk

1. Summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. The implications of recent bank failures

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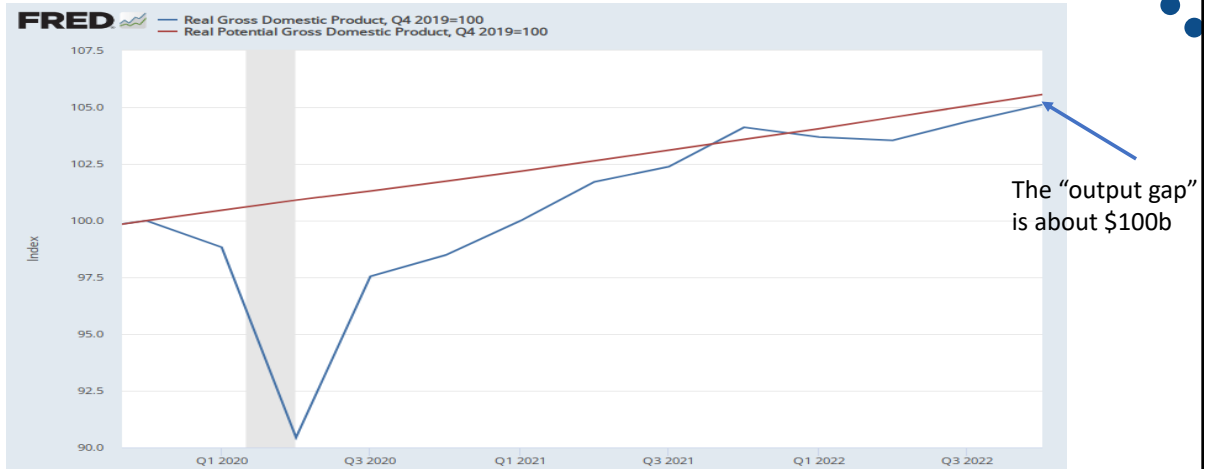
## Gross Domestic Product



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# Real GDP and 'Potential' during the Recovery



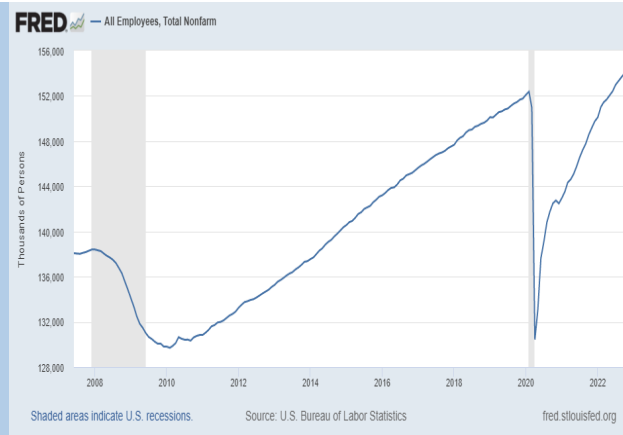
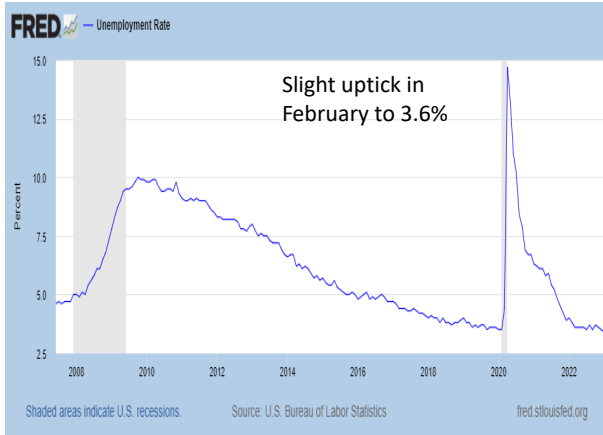
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Sources: BEA; CBO

myf.red/stlouisfed

Source: Fred, St Louis Fed

# Labor Market: Fully Recovered?



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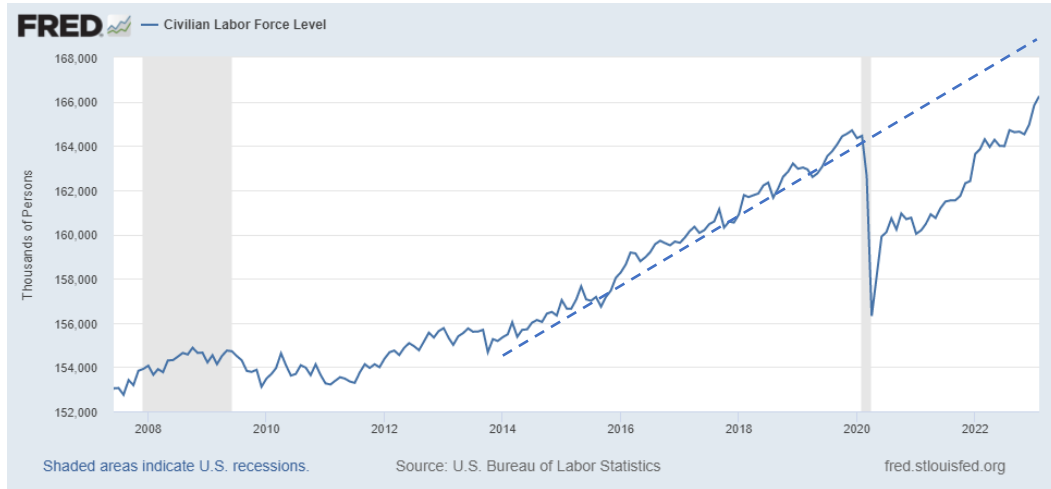
Source: U.S. Bureau of Labor Statistics

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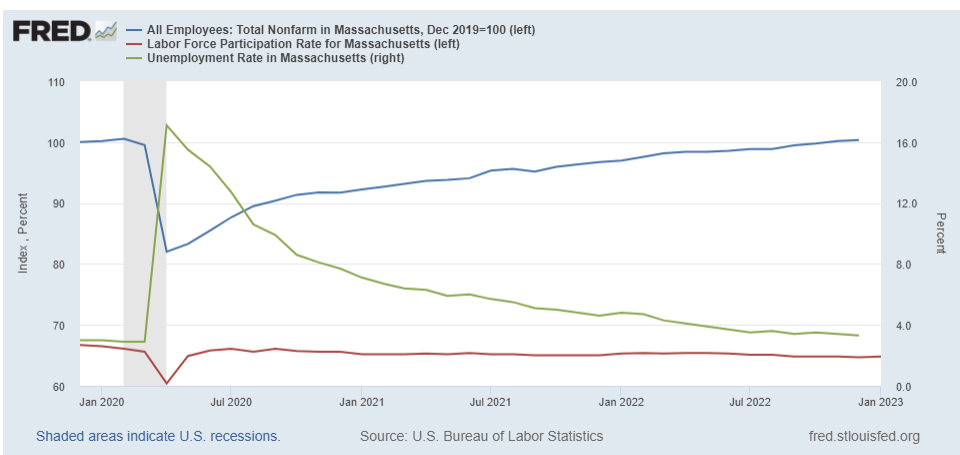
Source: U.S. Bureau of Labor Statistics

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# Where Have All the Workers Gone?



# Labor Market in Massachusetts



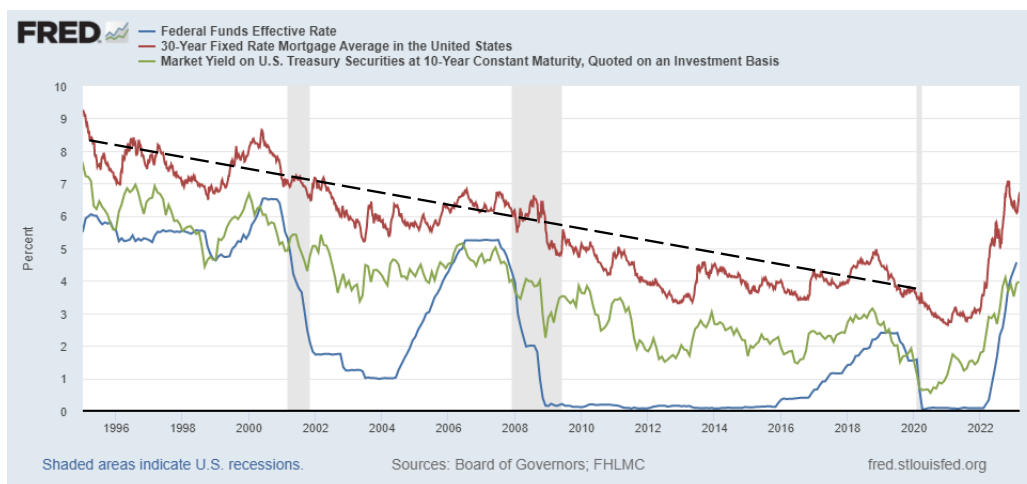
## Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Fly in the ointment: labor force has lost over 1.5 million workers.
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!

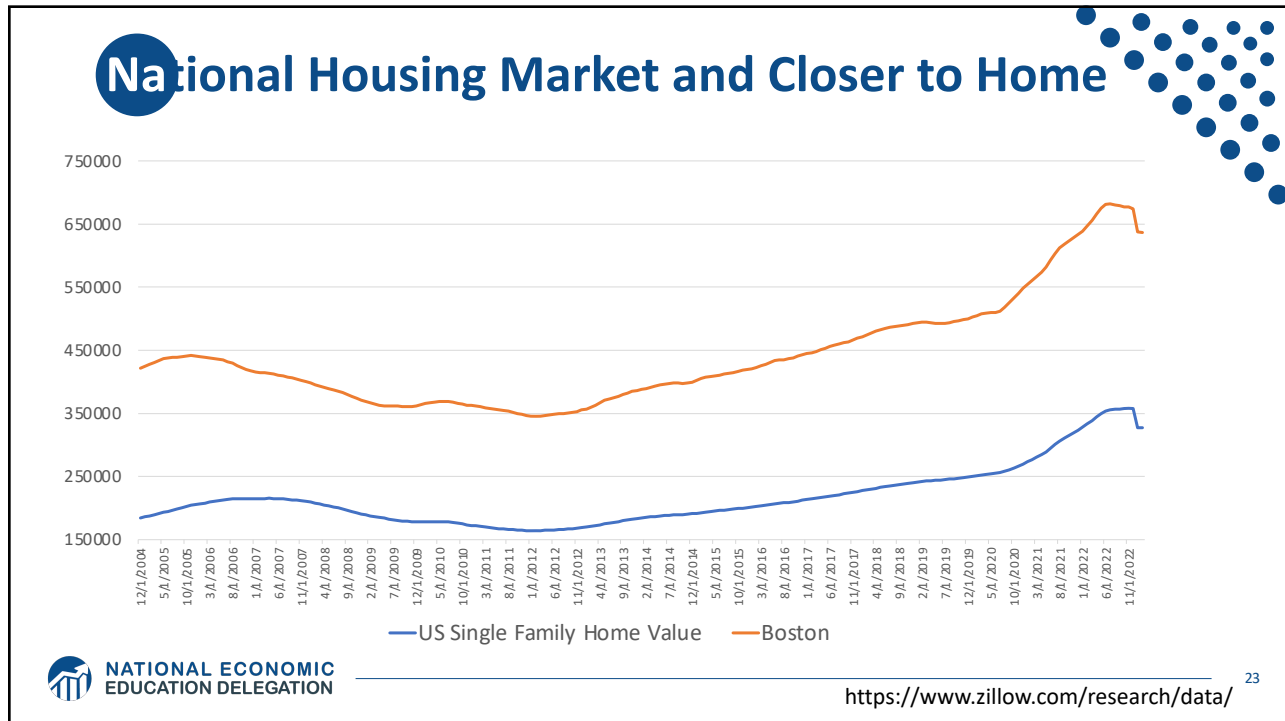


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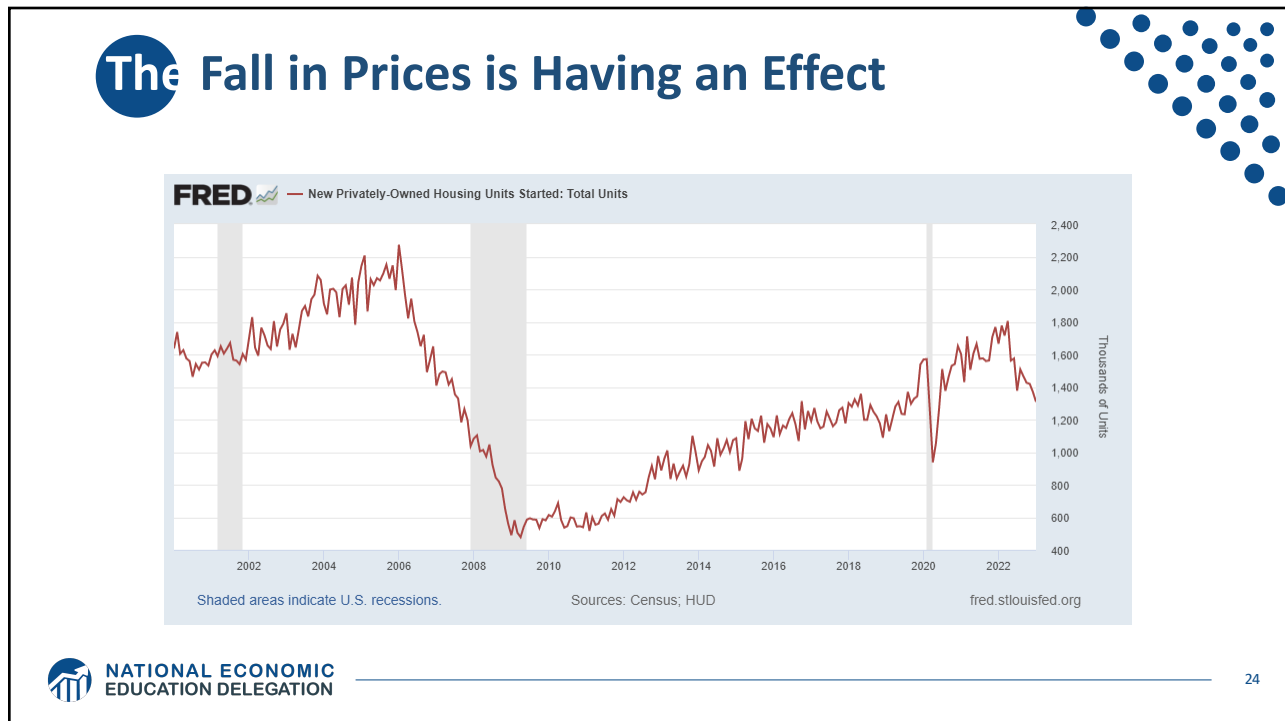
## Interest Rates: Era of Falling Rates Over?



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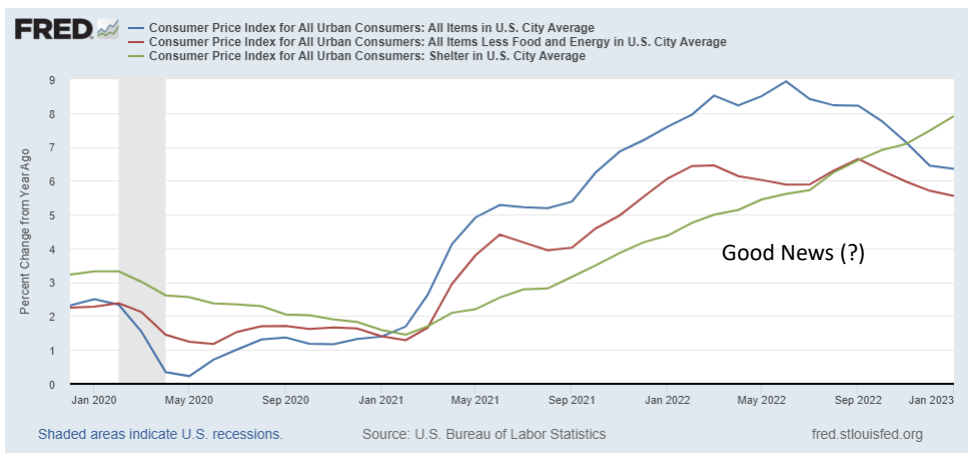
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# Stock Prices: Rates and Recession?

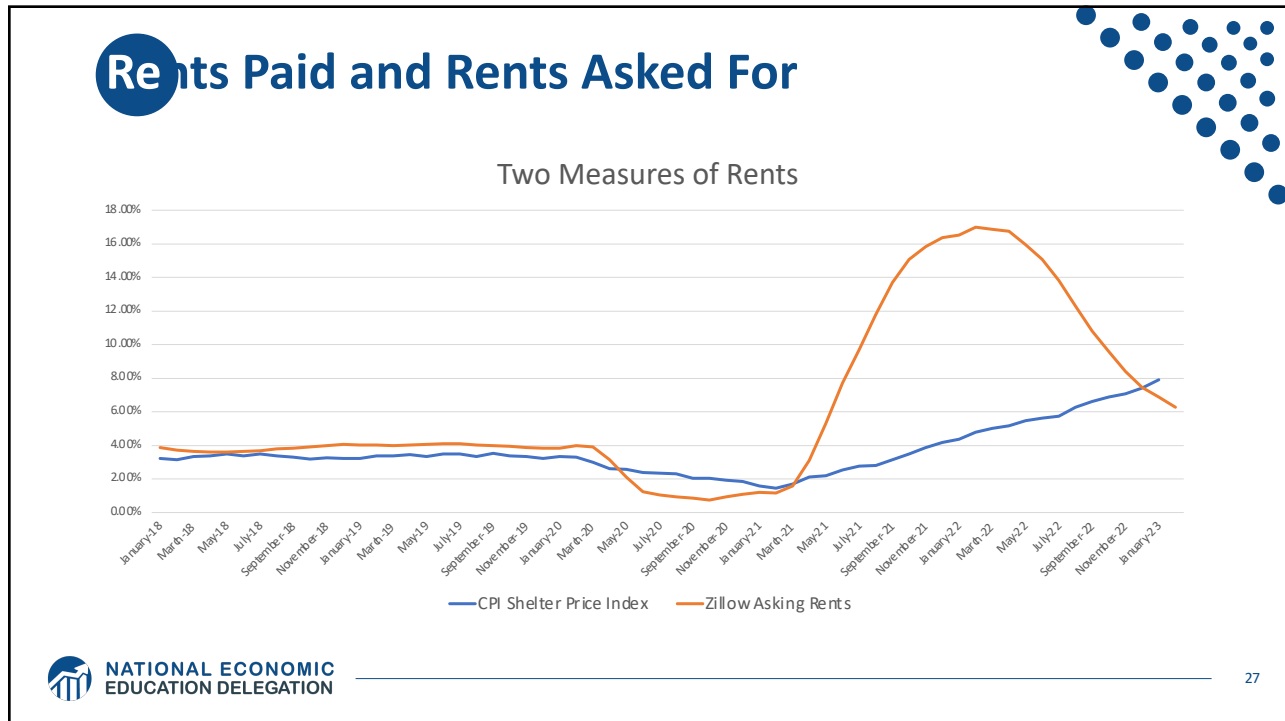


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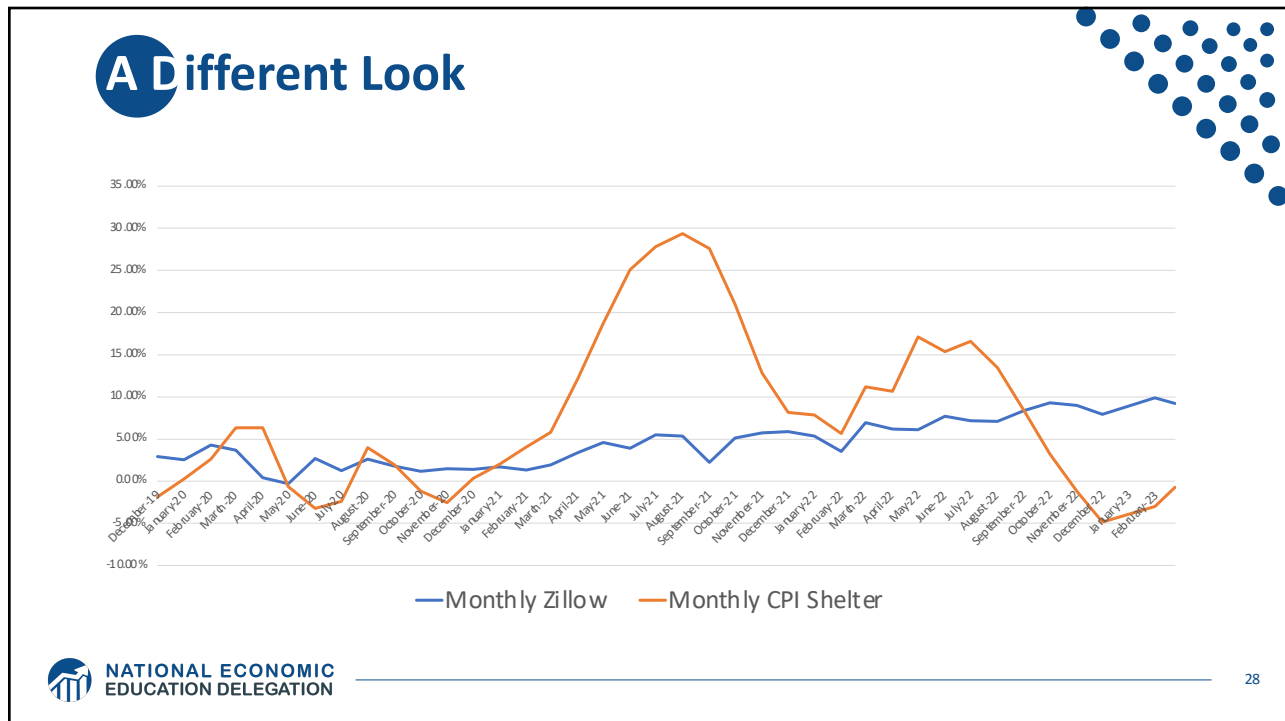
# Inflation during the Recovery



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## Wages Haven't Kept Pace with Inflation



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## Policy Effects

### Fiscal:

- **2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.**

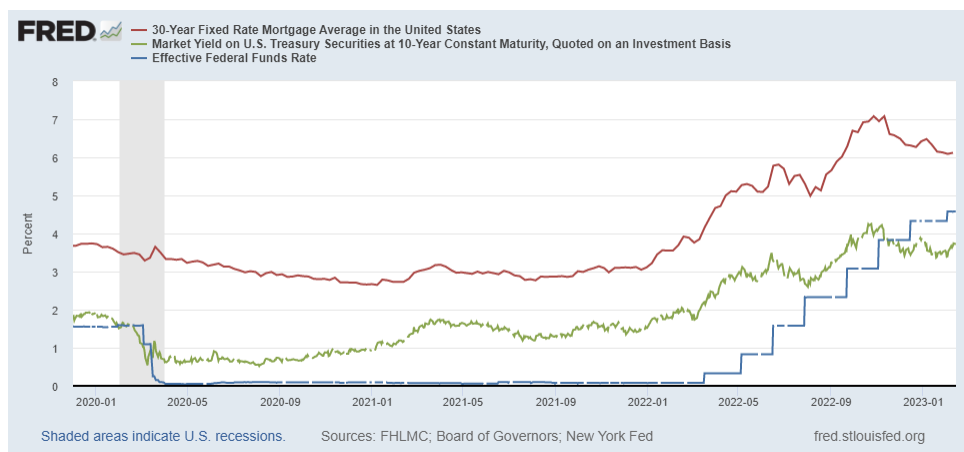
### Monetary:

- **2020-2/2022: policy interest rate at zero, new round of quantitative easing.**
- **3/2022-present: most rapid increase in interest rates since Paul Volcker**



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## Accommodative Monetary Policy until 3/2022



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## Where we Stand

- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.

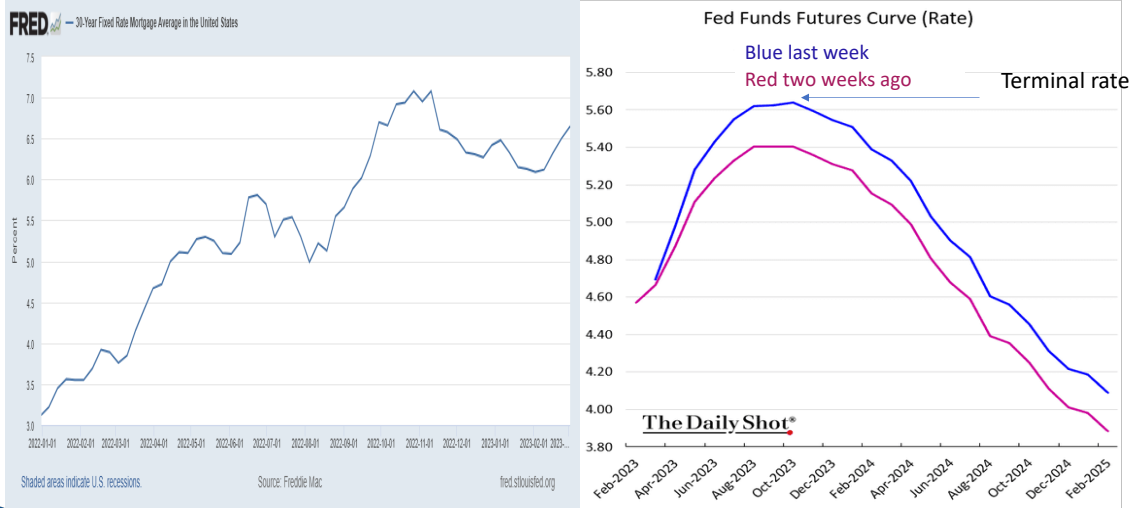
So, where are we headed?

What will the Fed do?

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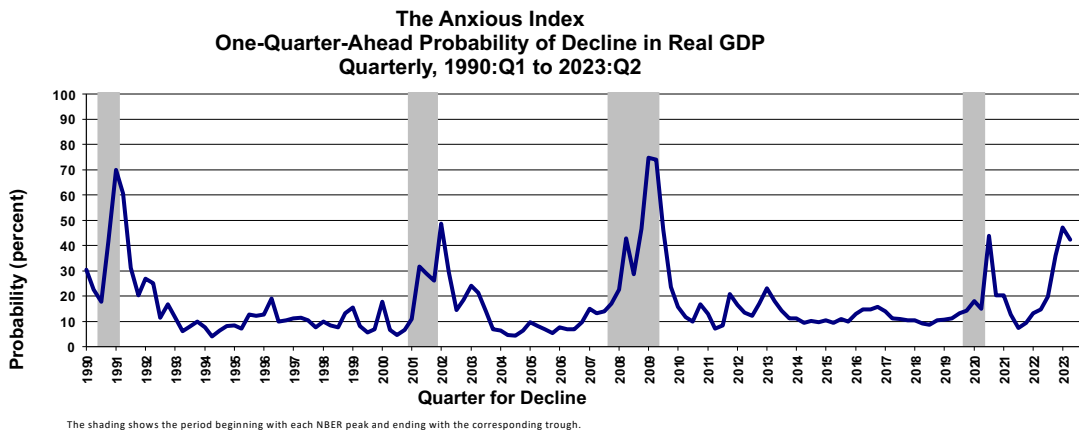


# On March 3<sup>rd</sup> Powell Emphasized Rate Hikes



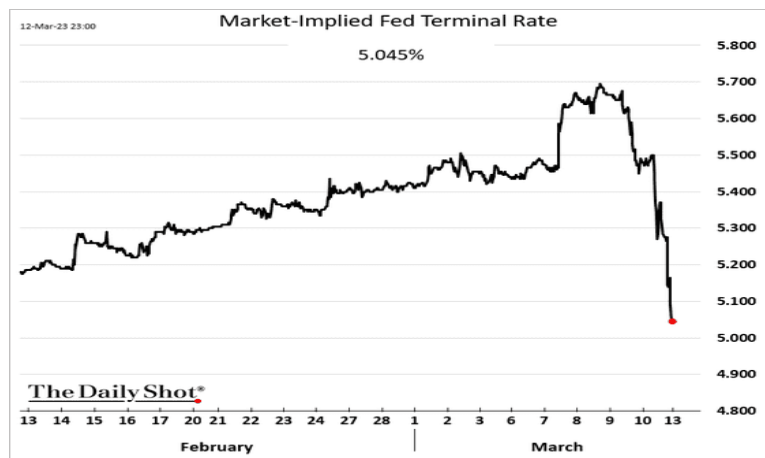
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# Forecasters Are in fact Seeing the “R” Word



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## Something Happened Over the Weekend



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## Silicon Valley Bank

- Regional mid-sized bank with \$212b in assets; \$6billion in capitalization.
- Focused on loans to venture capital and managing the deposit accounts of startups.
- Very rapid growth in deposits and assets between 2021 and 2022, which led to big investments in “safe” long term Treasury bond.
- The market value of these bonds fell drastically due to the Fed’s rise in interest rates.
- No problem! The bank does not incur “losses” unless it sells the bonds before maturity.



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## Whoops!

- Concentrated and sophisticated depositors see the problem and want to get their money out (FDIC insurance guarantees deposits up to \$250 thousand).
- Deposit withdrawals force SVB to sell those bonds.
- Precipitating a classic bank run and leading to the FDIC seizing the bank on Friday.



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## Silicon Valley's Not So Wonderful Life



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## FDIC Bank Closures, in General

1. "Auction" off the failed bank; all depositors paid in full.
2. Payoff insured deposits and liquidate bank assets
  - Under Dodd-Frank, the FDIC is supposed to use the cheaper procedure.
  - In either case, funding comes from banks payments of deposit insurance premium.

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## But, in This Case:

- Janet Yellen announced that all depositors would be paid in full, and there would be complete insurance of all bank deposits for a year.
- Fed created a new lending program, so that banks can borrow against Treasury bonds without realizing losses.
- The rationale was to prevent bank run spreading to other midsize banks.
  - Two other banks recently closed
  - Stock prices of a number of similar sized banks have plummeted.

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## Problems

- **Political:**
  - Did political favoritism play a role in bailing out well connected, sophisticated silicon valley depositors.
  - Why didn't bank regulators see this coming?
- **Economic:** has the moral hazard of "too big to fail" been increased.
- **For the Fed:** Will the Fed have to scale back its interest rate increases to prevent wide scale financial crisis?



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## Stay Tuned

- **Tomorrow at 8:30, CPI Report which is expected to show not much progress on inflation.**
- **Will the banking panic spread.**
- **Next week we will take a closer look at how the Fed makes these difficult policy decisions.**



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**Let's Hear from You!**

**Geoffrey Woglom**  
**grwoglom@amherst.edu**

**Contact NEED: [Info@NEEDelegation.org](mailto:Info@NEEDelegation.org)**

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